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For the years and , I can't see any reason why the IRS would not assert that the US parent is liable for employment taxes attributable to wages paid to employees of the foreign disregarded entity. The entity is disregarded as separate from its owner for all federal tax purposes for those years. Thus, it is as if the employees are working for an American employer. Generally, wages paid to US citizens working outside the United States for American employers are subject to FICA and FUTA. The wages won't be subject to income tax withholding if it is reasonable to believe at time of payment that they will be excludable from the recipient's gross income under section 911, or if they are subject to income tax withholding under the laws of a foreign country. I contacted at one point to confirm that they support this view that the US parent is liable for employment taxes on wages paid by a foreign disregarded entity, and they agreed. Of course, for 2009 and forward, the foreign entity is no longer disregarded for employment tax purposes under the new regs, so the US parent would no longer be liable for employment taxes on wages paid to employees of the foreign entity. Hope this is helpful.